

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Pigeon District Library	County Huron
Fiscal Year End 6/30/06	Opinion Date 8/17/06	Date Audit Report Submitted to State 9/8/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

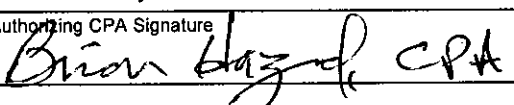
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☒ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☒ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	No other reports are required	
Certified Public Accountant (Firm Name) Nietzke & Faupel, PC		Telephone Number 989-453-3122	
Street Address 7274 Hartley Street		City Pigeon	State MI
Zip 48755		License Number 1101014007	
Authorizing CPA Signature 		Printed Name Brian Hazard	

**PIGEON DISTRICT LIBRARY
PIGEON, MICHIGAN**

**FINANCIAL STATEMENTS
JUNE 30, 2006**

PIGEON DISTRICT LIBRARY

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	2
STATEMENTS OF ASSETS, LIABILITIES, AND FUND BALANCE – CASH BASIS - GOVERNMENTAL FUND	3
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE - CASH BASIS – GOVERNMENTAL FUND	4
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL - CASH BASIS	5
NOTES TO THE FINANCIAL STATEMENTS	6 - 7

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pigeon District Library
Pigeon, Michigan 48755

We have audited the accompanying financial statements of the governmental activities of the Pigeon District Library, Pigeon, Michigan as of and for the years ended June 30, 2006 and 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pigeon District Library's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the Pigeon District Library prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position – cash basis of the governmental activities of the Pigeon District Library, Pigeon, Michigan, as of June 30, 2006 and 2005, and the changes in financial position – cash basis, thereof for the years then ended in conformity with the basis of accounting described in Note 1.


NIETZKE & FAUPEL, P.C.
PIGEON, MICHIGAN

August 17, 2006

FINANCIAL STATEMENTS

PIGEON DISTRICT LIBRARY

**STATEMENTS OF ASSETS, LIABILITIES, AND FUND BALANCE
CASH BASIS
GOVERNMENTAL FUND**

	JUNE 30,	
	<u>2006</u>	<u>2005</u>
<u>ASSETS:</u>		
Cash and deposits	\$ 126,962	\$140,067
Restricted assets:		
Cash-State Aid	4,714	716
Cash-Capital Improvement	130,853	108,538
Cash-Furniture	<u>7</u>	<u>7</u>
TOTAL ASSETS	<u>\$ 262,536</u>	<u>\$249,328</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>LIABILITIES:</u>		
Payroll taxes withheld	\$ 2,948	\$ 2,773
TOTAL LIABILITIES	<u>2,948</u>	<u>2,773</u>
<u>FUND EQUITY:</u>		
Fund balance:		
Reserved	135,574	109,261
Unreserved	<u>124,014</u>	<u>137,294</u>
TOTAL FUND EQUITY	<u>259,588</u>	<u>246,555</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 262,536</u>	<u>\$249,328</u>

PIGEON DISTRICT LIBRARY

STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE - CASH BASIS GOVERNMENTAL FUND

	YEARS ENDED JUNE 30,	
	<u>2006</u>	<u>2005</u>
REVENUE:		
Local sources:		
Property taxes	\$ 124,111	\$ 120,243
Contributions from other local governments	3,800	7,800
Penal fines	34,191	33,320
Book fines	2,740	3,013
Donations	8,085	6,802
Memorials	559	1,337
Interest earned	4,945	4,258
Rentals	2,720	2,750
Copier	1,898	2,012
Video tape rentals	5,129	6,473
Miscellaneous	1,543	4,512
State sources:		
State aid	7,392	4,056
TOTAL REVENUE	<u>197,113</u>	<u>196,576</u>
EXPENDITURES:		
Wages	98,964	94,509
Utilities	12,809	10,897
Insurance	3,152	2,595
Repairs and maintenance	6,101	5,796
Enrichment program	683	697
Education	1,924	1,608
Supplies	4,471	4,428
Postage	1,014	872
Books and magazines	20,245	21,155
Professional fees	3,425	3,868
Payroll taxes	7,714	7,396
Employee benefits	5,001	4,107
Dues and memberships	3,754	4,442
Cleaning	1,698	1,718
Kitchen supplies	685	552
Miscellaneous	748	717
Video tapes	3,576	3,142
Advertising	399	340
Appreciation dinner	698	
Internet charges	595	462
Christmas decorations	181	359
Newspaper digitization	1,500	974
Homebound program	131	415
Capital outlay	2,226	24,641
Technology	2,386	4,420
TOTAL EXPENDITURES	<u>184,080</u>	<u>200,110</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>13,033</u>	<u>(3,534)</u>
FUND BALANCE - JULY 1	246,555	250,089
FUND BALANCE - JUNE 30	<u>\$ 259,588</u>	<u>\$ 246,555</u>

The accompanying notes are an integral
part of the financial statements.

PIGEON DISTRICT LIBRARY

**STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL -
CASH BASIS
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2006**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Local sources:				
Property taxes	\$ 119,500	\$ 119,500	\$ 124,111	\$ 4,611
Contributions from other local governments	7,775	7,775	3,800	(3,975)
Penal fines	30,000	30,000	34,191	4,191
Book fines	3,000	3,000	2,740	(260)
Donations	11,500	11,500	8,085	(3,415)
Memorials	1,000	1,000	559	(441)
Interest earned	1,500	1,500	4,945	3,445
Rentals	3,000	3,000	2,720	(280)
Copier	2,400	2,400	1,898	(502)
Video tape rentals	8,000	8,000	5,129	(2,871)
Miscellaneous	5,775	5,775	1,543	(4,232)
State sources:				
State aid	8,000	8,000	7,392	(608)
TOTAL REVENUE	<u>201,450</u>	<u>201,450</u>	<u>197,113</u>	<u>(4,337)</u>
EXPENDITURES:				
Wages	99,000	99,000	98,964	36
Utilities	12,900	13,433	12,809	624
Insurance	3,500	3,500	3,152	348
Repairs and maintenance	9,200	9,728	6,101	3,627
Enrichment program	700	700	683	17
Education	2,000	2,010	1,924	86
Supplies	4,500	4,500	4,471	29
Postage	1,000	1,015	1,014	1
Books and magazines	19,675	20,247	20,245	2
Professional fees	3,200	3,425	3,425	-
Payroll taxes	8,900	8,900	7,714	1,186
Employee benefits	5,000	5,001	5,001	-
Dues and memberships	14,500	14,500	3,754	10,746
Cleaning	1,800	1,700	1,698	2
Kitchen supplies	600	686	685	1
Miscellaneous	1,125	910	748	162
Video tapes	4,000	3,600	3,576	24
Advertising	400	400	399	1
Appreciation dinner	650	700	698	2
Internet charges	700	700	595	105
Christmas decorations	250	200	181	19
Newspaper digitization	1,700	1,700	1,500	200
Homebound program	150	150	131	19
Equipment	3,500	2,245	2,226	19
Technology	2,500	2,500	2,386	114
TOTAL EXPENDITURES	<u>201,450</u>	<u>201,450</u>	<u>184,080</u>	<u>17,370</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>13,033</u>	<u>13,033</u>
FUND BALANCE - JULY 1	<u>246,555</u>	<u>246,555</u>	<u>246,555</u>	
FUND BALANCE - JUNE 30	<u>\$ 246,555</u>	<u>\$ 246,555</u>	<u>\$ 259,588</u>	<u>\$ 13,033</u>

The accompanying notes are an integral
part of the financial statements.

PIGEON DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

In evaluating how to define the Pigeon District Library for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Library is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no component units that should be included in the Library's reporting entity.

Fund Accounting

The accounts of the Library are organized into one general operating fund. The operations of the Library are accounted for in a separate set of self-balancing accounts which are comprised of the Library's assets, liabilities, fund equity, revenue and expenditures. The fund of Pigeon District Library is categorized as follows:

Governmental Fund Type

General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources of the Library.

Basis of Accounting

Basis of accounting refers to when revenue and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The General Fund of the Library is accounted for by using the cash basis of accounting. Under the cash basis of accounting, revenue is recognized when received and expenditures are recognized when the disbursement of cash is made. The cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles for governmental units. These financial statements are, therefore, not presented in accordance with generally accepted accounting principles.

Budgets

Formal budgetary integration is employed as a management control device during the year for the General Fund. The budget is prepared on the cash basis of accounting, as explained above, and is consistent with the preparation of the financial statements.

The Board of Trustees prepares the budget on a line item basis. Any revisions that alter any line item appropriation must be approved by the Board of Trustees. Therefore, the level of budgetary responsibility is at the line item level.

(Continued)

PIGEON DISTRICT LIBRARY

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Unused appropriations lapse at the end of the year.

On June 29, 2006, the Board of Trustees amended the budget of the Library. The budget amendment did not change the total appropriations for the year ended June 30, 2006, but altered certain line item appropriations. The final amended budget is presented on page 5.

NOTE 2 - CASH AND DEPOSITS:

At June 30, 2006 and 2005, the carrying amount of the Library's deposits (checking and savings) were \$262,486 and \$249,278, respectively and the bank balances were \$265,583 and \$252,393, respectively. All but \$75,604 of the deposits with financial institutions are insured by the FDIC.

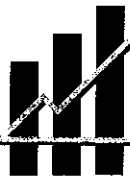
The carrying amount of the Library's deposits at June 30, 2006 and 2005, of \$262,486 and \$249,278 include restricted funds totaling \$135,574 and \$109,261, respectively. The funds are restricted for the following purposes:

	JUNE 30,	
	<u>2006</u>	<u>2005</u>
State aid funds to be used only for the purchase of circulation materials	\$ 4,714	\$ 716
Furniture Fund	7	7
Capital improvements	130,853	108,538
Total restricted cash	<u>\$135,574</u>	<u>\$109,261</u>

Fund equity has been reserved at June 30, 2006 and 2005, for the amount of restricted cash as detailed above.

NOTE 3 - RELATED PARTY TRANSACTIONS:

The members of the Board of Trustees are appointed by the townships and village of the legal service area of the Library and include the following local units of government: Chandler Township, McKinley Township, Winsor Township, and the Village of Pigeon, all of which are in Huron County, Michigan. These local units of government also provide revenue to the Pigeon District Library in the form of property taxes. For the year ended June 30, 2006 and 2005, total revenue received from the legal service area amounted to \$124,111 and \$120,243, respectively.



Nietzke & Faupel, PC

Members of: Michigan Association of Certified Public Accountants • American Institute of Certified Public Accountants

ALLAN W. NIETZKE, CPA
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CPA's On Your Team

To the Board of Trustees
Pigeon District Library
Pigeon, Michigan

During our audit, we noted certain matters involving operational matters that are presented for your consideration. This letter does not affect our report dated August 17, 2006, on the financial statements of the Pigeon District Library. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve the Library's accounting records or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Uniform Chart of Accounts:

State statutes require that a local unit of government use the uniform chart of accounts set up by the Department of Treasury. The current chart of accounts does not follow this uniform chart of accounts. New accounts can be set up in Quickbooks to comply with the Department of Treasury's uniform chart of accounts.

Public Hearing on Budget:

State statutes require a public hearing to discuss the budget. Currently, the Library does not have a public hearing on the budget. The meeting to discuss the budget should invite the public to comply with the state statutes.

Board Approval of Invoices for Payment:

State statutes require the board to approve all invoices prior to payment. Currently, the Library Board does not approve the invoices before payment. The board could review the invoices before they are paid to comply with the state statutes.

We believe that the implementation of these recommendations will provide the Pigeon District Library with a stronger system of accounting records. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This report is intended solely for the information and use of the Library Board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

August 17, 2006

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.